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172496
DAN F. ARNETT
CHIEF OF STAFF

January 18, 2005

Mr. Charles L.A. Terreni
Chief Clerk/Administrator
South Carolina Public Service Commission
101 Executive Center Dr., Suite 100
Columbia, SC 29210

Re: Application of Bush River Utilities, Inc. for an approval of New Schedule
of Rates and Charges for Sewage Service provided Residential and
Commercial customers in all areas served.
PSC Docket No.: 2004-259-S

Dear Charles:

Enclosed for filing please find twenty-six copies of surrebuttal testimony and exhibits for the following Office of Regulatory Staff witnesses: Dawn Hipp, Willie Morgan, and Roy Barnette. Please date stamp the extra copy enclosed and return it to me via person delivery same.

Please let me know if you have any questions.

Sincerely,

Benjamin P. Mustian

BM/cc
Enclosures

cc: Charles Cook, Esquire


BEFORE
THE PUBLIC SERVICE COMMISSION
OF SOUTH CAROLINA
DOCKET NO. 2004-259-S

IN RE: Application of BUSH RIVER)
UTILITIES, INC. for Approval of)
New Schedule of Rates and Charges)
For Sewage Service Provided to)
Residential, Commercial and)
Wholesale Customers in all areas)
Served.)

CERTIFICATE OF SERVICE

This is to certify that I, Cindy Clary, an employee with the Office of Regulatory Staff, have this date served one (1) copy of the Surrebuttal Testimony and Exhibits of: Dawn M. Hipp, Willie J. Morgan, and Roy Barnette in the above-referenced matter to the person(s) named below by causing said copy to be deposited in the United States Postal Service, first class postage prepaid and affixed thereto, and addressed as shown below:

Charles Cook, Esquire
Elliott & Elliott, P.A.
721 Olive Street
Columbia, South Carolina 29205


Cindy Clary

January 18, 2005
Columbia, South Carolina

**THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY
OF**

Roy Barnette



**DOCKET NO. 2004-259-S
BUSH RIVER UTILITIES, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003**

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SO REG
COMMISSION

SURREBUTTAL TESTIMONY OF ROY H. BARNETTE

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2004-259-S

IN RE: BUSH RIVER UTILITIES, INC.

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND OCCUPATION.

A. My name is Roy H. Barnette. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina. I am employed by the Office of Regulatory Staff ("ORS") as an Auditor.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY INVOLVING BUSH RIVER UTILITIES, INC. ("BRUI")?

A. The purpose of my surrebuttal testimony is to address and explain the issues brought forth by the Company in its rebuttal testimony.

Q. PLEASE EXPLAIN YOUR DISALLOWANCE OF CERTAIN EXPENSES BECAUSE THEY WERE NOT KNOWN AND MEASURABLE.

A. During the performance of the audit, ORS requested copies of invoices or other evidence to support the per book numbers. The BRUI staff was most helpful in fulfilling these requests; however, in the case of items on a going forward basis, the company was not able to provide documentation, i.e., purchase orders, etc., to support the dollar amounts included in its application. Therefore, ORS determined

1 these costs not to be known and measurable, thus unallowable for rate making
2 purposes.

3 **Q. PLEASE EXPLAIN THE NEED FOR RECLASSIFICATION OR**
4 **ALLOCATION ADJUSTMENTS DURING THE AUDIT.**

5 A. During the performance of the audit, ORS determined that several items had been
6 expensed to an incorrect account or paid for by one of the affiliated companies and
7 not properly recorded on the books of the other affiliates. Therefore, it was necessary
8 for ORS to reclassify certain expenses and allocate other expenses between the three
9 companies. As stated in my prefiled testimony, ORS recommends that the affiliated
10 companies of DSI, BRUI and MUI merge their operations and consolidate their
11 books and records considering they share common ownership, purpose, staffing,
12 inter-company borrowing of assets, expenses and equipment. If a merger of the
13 companies occurs, allocations would no longer be necessary, and the company's
14 record keeping procedures would be simplified.

15 As for ORS's reliance on NARUC guidelines for justification of certain adjustments
16 and disallowances, ORS acknowledges that these guidelines do not constitute law;
17 however, the NARUC guidelines do employ accepted regulatory principles. Also, it
18 should be noted that the use of these guidelines by sewer utilities is required by law
19 (26 S.C. Code Regs. 103-517).

20 **Q. DOES BRUI'S SYSTEM OF ACCOUNTING DIFFER FROM THAT OF THE**
21 **NARUC SYSTEM OF ACCOUNTING?**

22 ORS agrees with BRUI's rebuttal assertion that there are differences between
23 BRUI's and NARUC's systems of accounting with respect to charts of accounts and

1 depreciation schedules. BRUI's rebuttal also indicates that their system of
2 accounting is similar to that of NARUC. ORS did not consider degrees of similarity
3 in its determination that BRUI was not in compliance.

4 **Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

5 **A.** Yes, it does.

THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY AND
EXHIBITS
OF
DAWN M. HIPPIE

2005 JUL 12 PM 4:35
OFFICE OF REGULATORY STAFF
SOUTH CAROLINA



DOCKET NO. 2004-259-S
BUSH RIVER UTILITIES, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003

SURREBUTTAL TESTIMONY OF DAWN M. HIPPI**FOR****THE OFFICE OF REGULATORY STAFF****DOCKET NO. 2004-259-S****IN RE: BUSH RIVER UTILITIES, INC.**

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Dawn M. Hipp. My business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina as a Project Specialist for Water/Wastewater Department for the Office of Regulatory Staff ("ORS").

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my surrebuttal testimony is to respond to Mr. Keith Parnell's Rebuttal Testimony filed, on behalf of Bush River Utilities, Inc. ("BRUI"), on January 13, 2005, and to present the ORS staff's position relating to compliance with the Commission's regulations and company structure.

**Q. IS BRUI IN COMPLIANCE WITH ALL PUBLIC SERVICE
COMMISSION RULES AND REGULATIONS RELATING TO
CUSTOMER RELATIONS?**

1 A. ORS is committed to representing the public interest; in doing so, we intend to
2 assist companies such as BRUI with achieving full compliance with Commission
3 regulations. In keeping with this mission, ORS completed a thorough review of
4 BRUI's business records relating to customer relations which included a review
5 of BRUI's procedures for the provision of information to customers, resolution of
6 customer complaints and billing practices.

7 As stated in my direct testimony, the Business Compliance Audit revealed several
8 deficiencies in this area including a lack of detailed complaint records containing
9 the name and address of the complainant, date and character of the complaint and
10 adjustment or resolution of the complaint (26 S.C. Code Regs. 103-516). Mr.
11 Parnell indicated in his rebuttal testimony that BRUI uses a telephone message
12 book to record complaints; however, these records are not easily identifiable. The
13 BRUI complaints are intermingled with Development Services, Inc. ("DSI")
14 complaints. Additionally, business calls to both utilities are logged with the
15 complaints, and the telephone message book does not record final complaint
16 resolution. Mr. Parnell also stated that BRUI maintains logbooks for every
17 service call made, including what service was provided and the type of complaint.
18 During ORS's audit, no service call logbooks were referenced or provided by
19 BRUI. A separate book for each company's complaints would facilitate ORS's
20 audit regarding compliance with this regulatory requirement.

21 ORS also noted that the bill form does not identify an after-hours emergency
22 number. While the bill form (Exhibit DMH-13 (surrebuttal)) does provide a
23 phone number, it does not make reference to office hours. Providing a written

reference to specific office-hours and a statement indicating the use of an emergency answering service would provide clarification to customers.

Q. WHY DO YOU RECOMMEND A WRITTEN BUSINESS PLAN BE DEVELOPED AND IMPLEMENTED FOR BRUI?

A. Neither ORS nor the Commission has the responsibility to manage utility companies; however, both agencies can require BRUI to consider proactive business management practices. BRUI does not have a written business plan. Loan agreements and DHEC consent orders are not a successful business plan. While BRUI has taken steps to organize and update financial and operations records, these efforts have been conducted in reaction to environmental regulation penalties.

Development and subsequent implementation of a business plan would provide BRUI with a proactive "road map" to guide their financial, regulatory compliance, and daily operations going forward. As a public utility, it is BRUI's task to provide safe and adequate service at just and reasonable rates. Sound business judgment and methodology as identified by a solid business plan is a driver of reasonable rates.

Q. WHY DOES ORS RECOMMEND A MERGER OF BRUI, DSI AND MIDLANDS UTILITY, INC. ("MUI")?

A. BRUI, DSI and MUI are currently not being operated as three separate companies. ORS has provided this Commission with many examples of business practices by BRUI and DSI in which the companies operate as one entity, including: the utilization of purchased assets without proper cost/expense

1 allocation, under collection of wholesale service revenues, financial assurance
2 requirements secured by identical personal financial statements, and obligation of
3 all three companies for loan repayment on facility upgrades. In addition, the
4 application references the Parnell's intent to merge these companies into one
5 company.

6 ORS recommends a merger to provide cost savings related to rate-case expense,
7 performance bond compliance, and administrative overhead costs (i.e. billing
8 process refinement and office supply expense). Should BRUI choose not to
9 merge with DSI and MUI, ORS recommends each company be treated as stand
10 alone entities requiring proper financial allocations for all inter-company
11 asset/liability transactions, increased performance bond amounts, and full
12 collection on wholesale service revenues.

13 **Q. DOES THAT CONCLUDE YOUR SURREBUTTAL TESTIMONY?**

14 **A.** Yes it does.

SURREBUTTAL EXHIBITS

OF

DAWN M. HIPP

**DOCKET NO. 2004-259-S
BUSH RIVER UTILITIES, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003**

BUSH RIVER UTILITIES

P.O. BOX 258
LEXINGTON, S.C. 29072
TELEPHONE 359-4803

INVOICE

DATE OF BILLING :

ACCOUNT # : BR-

SEWER SERVICE FOR

ACCOUNT

NAME :
ATTN :
ADDRESS :

CITY :
STATE :
ZIP :

ACCOUNT ACTIVITY

PREVIOUS BALANCE.....
PAYMENT RECEIVED.....
DATE OF PAYMENT..... / /
PAST DUE.....
LATE CHARGE.....
SEWER SERVICE CHARGE.....

TOTAL DUE.....

1.5% LATE CHARGE WILL BE ADDED TO ANY UNPAID BALANCE NOT PAID
WITHIN 25 DAYS OF BILLING DATE .

THE OFFICE OF REGULATORY STAFF
SURREBUTTAL TESTIMONY AND
EXHIBITS
OF
WILLIE J. MORGAN

RECEIVED
2005 JUN 13 PM 4:26
OFFICE OF REGULATORY STAFF
COLUMBIA, SC



DOCKET NO. 2004-259-S
BUSH RIVER UTILITIES, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003

SURREBUTTAL TESTIMONY OF WILLIE J. MORGAN

FOR

THE OFFICE OF REGULATORY STAFF

DOCKET NO. 2004-259-S

IN RE: BUSH RIVER UTILITIES, INC.

**Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND
OCCUPATION.**

A. My name is Willie J. Morgan, and my business address is 1441 Main Street, Suite 300, Columbia, South Carolina 29201. I am employed by the State of South Carolina, Office of Regulatory Staff ("ORS") as the Program Manager for the Water and Wastewater Department.

**Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY
INVOLVING BUSH RIVER UTILITIES, INC. ("BRUI") FOR THIS
PROCEEDING?**

A. The purpose of my testimony is to clarify ORS's position on certain issues raised by Mr. Keith G. Parnell and Mr. Charles K. (Ken) Parnell during their rebuttal testimony concerning BRUI's rate case application and management practices. Specifically, I will focus on the proposed depreciation and treatment issues.

1 **Q. PLEASE DESCRIBE WHY A 20-YEAR DEPRECIATION SCHEDULE IS**
2 **INAPPROPRIATE FOR BRUI'S WASTEWATER TREATMENT**
3 **FACILITY ("WWTF").**

4 **A.** BRUI states in its rebuttal testimony that equipment should have a useful life of
5 no more than 20 years due to anticipated changes in discharge limits. BRUI has
6 offered no documentation, historical data, or studies which would support this
7 length of service life, but instead, bases this proposal on speculation. Further, in
8 its rate case application, BRUI contradicts this position by stating the existing
9 sewer plant should have a depreciation schedule of 20 years while the new sewer
10 plant schedule should be 25 years.

11 Contrary to BRUI's rebuttal testimony, a 32-year service life is more appropriate
12 because of the useful life of the equipment (sewer plant). ORS bases this
13 recommendation on guidelines set forth in Florida Public Service Commission
14 Water and Wastewater System Regulatory Law, Rule 25-30.140, Florida
15 Administrative Code as last amended on December 4, 2003. Further, ORS uses
16 the National Association of Regulatory Utility Commissioners (NARUC)
17 definition for depreciation. "'Depreciation', as applied to depreciable utility
18 plant, means the loss in service value not restored by current maintenance,
19 incurred in connection with the consumption or prospective retirement of utility
20 plant in the course of service from causes which are known to be in current
21 operation and against which the utility is not protected by insurance." (Emphasis
22 added). Depreciation cannot be tied to unknown changes in regulatory law;
23 rather, it should reflect the projected useful life of the equipment or material. In

1 this case, the projected service life of the system is 32 years. If BRUI proposes
2 that the Commission consider a different depreciation schedule, then BRUI
3 should justify an alternative schedule using historical data, technical information,
4 service life studies, or specific detailed utility planning for the affected utility.

5 **Q. FROM YOUR REVIEW OF BRUI'S REBUTTAL TESTIMONY**
6 **CONCERNING THE TREATMENT LAGOON, DO YOU HAVE ANY**
7 **ADDITIONAL COMMENTS TO MAKE CONCERNING ITS**
8 **OPERATIONS?**

9 A. Yes. Mr. Charles K. (Ken) Parnell's rebuttal testimony states ORS confuses plant
10 growth as sludge while "in reality it is a surface accumulation of grease."
11 Regardless of whether sludge or grease is present in the treatment system, it is
12 obvious that the existing treatment process is not being properly maintained. As
13 shown in Exhibit WJM-6 of my direct testimony, inappropriate solids continue to
14 remain in the wastewater flow at a point well into the treatment process. If these
15 solids are grease as attested to by Mr. Parnell, it should be skimmed from the
16 wastewater to avoid interference with the continuing wastewater treatment
17 process. The grease can enable additional algae growth and plant life, as well as
18 impact the capacity of the lagoon. While this would not necessarily cease the
19 treatment process, the designed treatment capacity would definitely be
20 compromised or reduced. In addition, biological breakdown of dead vegetation in
21 the lagoon from the winter frost can impact the treatment process as well.

1 **Q. MR. MORGAN, DESCRIBE YOUR VIEW ON THE USE OF THE**
2 **CONCRETE MASONRY AROUND THE PERIMETER OF THE**
3 **LAGOON.**

4 **A.** Mr. Parnell's rebuttal testimony questioned ORS's assertion that the dikes at
5 BRUI are in need of repair by stating "the dikes do not leak and the concrete
6 masonry unit has no structural importance." ORS did observe cracks in the
7 masonry unit. Since the lagoon is unlined and is mainly constructed of earthen
8 material, the concrete masonry offers support to limit erosion along the interior
9 part of the lagoon. This provides a very important feature in maintaining the
10 structural integrity of the dike around the lagoon and the masonry unit should be
11 properly repaired.

12 **Q. DO YOU HAVE ANY COMMENTS CONCERNING THE USE OF**
13 **CHLORINE AS A DISINFECTANT IN BRUI'S WASTEWATER**
14 **TREATMENT SYSTEM PROCESS?**

15 **A.** As stated in my direct testimony, chlorine is the most commonly used disinfectant
16 for wastewater treatment in South Carolina. In fact, this is the current method of
17 treatment at BRUI's existing WWTF. We are not aware of any accidents
18 associated with the use of chlorine as a disinfectant for a wastewater treatment
19 process. As shown by the small cylinders in Exhibit WJM-8 (surrebuttal), the
20 amount of chlorine managed at the BRUI WWTF is very small compared to the
21 amount of chlorine that was involved in the accident that created the headlines
22 recently. Our position is that the chlorination process should have been
23 considered during a review of alternatives for upgrading the BRUI's WWTF.

1 **Q. WHAT IS YOUR OPINION ABOUT CONSIDERING COMPETING**
2 **OPTIONS FOR PROJECT WORK ON BRUI?**

3 A. The process of considering competing options can help evaluate cost differences
4 between similar proposals as well as different upgrade options. Allowing
5 competitors to participate could help BRUI look at options that may not have
6 been considered. While HPG and Company may be capable of managing the
7 project, it might not be the best overall cost option for BRUI and its customers.
8 Bids from other engineering firms could have been helpful in establishing the
9 reasonableness of the estimated costs of the project because bids would have
10 shown market or competitive prices. As it stands, all we have as to the
11 reasonableness of the costs are the costs supplied by a company with an owner
12 common to it and to the utility considering Mr. Ken Parnell is an owner in both
13 BRUI and in the engineering firm (HPG and Company) selected by BRUI. While
14 Mr. Parnell's engineering company may be able to save some costs for BRUI,
15 there is no way to determine that from what has been presented. Customers should
16 not be required to pay a price higher than what would be available in the market,
17 and based on the information provided, there is no way to determine whether that
18 is the case here or not.

19 **Q. DOES THAT CONCLUDE YOUR SURREBUTAL TESTIMONY?**

20 A. Yes it does.

SURREBUTTAL EXHIBITS

OF

WILLIE J. MORGAN

**DOCKET NO. 2004-259-S
BUSH RIVER UTILITIES, INC.
APPLICATION FOR RATE INCREASE
TEST YEAR ENDED DECEMBER 31, 2003**

EXHIBIT

WJM-8(surrebuttal)

